



**COUNTY OF LOS ANGELES
DEPARTMENT OF AUDITOR-CONTROLLER**

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February 15, 2012

TO: Supervisor Zev Yaroslavsky, Chairman
Supervisor Gloria Molina
Supervisor Mark Ridley-Thomas
Supervisor Don Knabe
Supervisor Michael D. Antonovich

FROM: Wendy L. Watanabe
Auditor-Controller

A handwritten signature in blue ink, reading "Wendy L. Watanabe", is written over the printed name and title.

SUBJECT: **HUB CITIES CONSORTIUM – A COMMUNITY AND SENIOR
SERVICES' WORKFORCE INVESTMENT ACT PROGRAM CONTRACT
SERVICE PROVIDER – CONTRACT COMPLIANCE REVIEW**

We completed a review of Hub Cities Consortium (Hub Cities or Agency), a Community and Senior Services' (CSS) Workforce Investment Act (WIA) Program provider. Our review covered a sample of transactions from Fiscal Years (FY) 2009-10 and 2010-11. The purpose of our review was to determine whether Hub Cities provided WIA services in compliance with its County contracts and WIA requirements.

The WIA Formula Youth Program is a comprehensive training and employment program for in-school and out-of-school youth ages 14 to 21 years. The WIA Formula Adult and Dislocated Worker Programs (Formula) assist individuals in obtaining employment, retaining their jobs, and increasing their earnings. The WIA American Recovery and Reinvestment Act (ARRA) and Governor's Economic Stimulus (Stimulus) Programs supplement the WIA Formula Programs.

CSS paid Hub Cities a total of \$5,985,623 for three cost-reimbursement contracts; \$4,069,215 for Formula, \$1,882,847 for ARRA, and \$33,561 for Stimulus for FY 2009-10. Hub Cities serves participants residing in the First and Second Supervisorial Districts.

Results of Review

Hub Cities did not always comply with WIA and County contract requirements. In addition, Hub Cities billed CSS \$307,634 in questioned costs. After our review, Hub Cities provided additional documentation to support \$117,870 in questioned costs, leaving a balance of \$189,764 in questioned costs. Specifically, Hub Cities:

- Did not maintain adequate documentation to support the eligibility for five (6%) of the 80 participants sampled. Direct questioned costs totaled \$6,484.

After our review, Hub Cities provided additional documentation to support the eligibility for three of the five questioned participants. The questioned costs related to these three individuals totaled \$5,574. In their attached response, Hub Cities has agreed to repay CSS the remaining \$910 (\$6,484 - \$5,574) after this report is issued.

- Did not have signed WIA Complaint and Resolution Policies and Procedures Participant Acceptance Form as required by WIA Directive LACOD-WIAD08-36 for 36 (60%) of the 60 participants reviewed.

Hub Cities' attached response indicates that they have restructured, and implemented a review process to ensure all forms are signed and kept in the participants' files.

- Did not maintain adequate documentation to support the percentages used to allocate shared expenses to the WIA Program in FY 2009-10, and did not allocate shared expenses among all the Agency's programs as required by the Auditor-Controller Contract Accounting and Administration Handbook. Questioned costs totaled \$19,245.

After our review, Hub Cities provided additional documentation that supported the \$19,245 in questioned costs.

- Did not maintain adequate documentation to support \$157,129 in FY 2009-10 Individual Training Account, supportive services, maintenance, and printing/postage expenditures.

After our review, Hub Cities provided additional documentation to support \$92,016 of the \$157,129 in questioned costs. Hub Cities' management indicated that they credited CSS for the remaining \$65,113 in questioned costs. However, Hub Cities did not provide adequate documentation, such as a copy of their accounting records, to support that they had credited CSS the remaining questioned costs.

- Did not develop and implement WIA ARRA policies and procedures as required by WIA Directives WIA/ARRA A D09-03, ADW D09-04, ADW D09-05, ADW D09-07, and ADW D09-08.

In their attached response, Hub Cities indicated that they have developed and implemented the required WIA ARRA policies and procedures.

- Did not reconcile the participant fringe benefit expenditures invoiced in FY 2009-10 to the Agency's accounting records for the WIA Formula Youth Program. Questioned costs totaled \$1,035.

After our review, Hub Cities provided additional documentation to support the \$1,035 in questioned costs.

- Did not obtain a criminal record clearance as required by the County contract, including fingerprinting, for one employee who worked directly with minors. In addition, Hub Cities did not verify whether their subcontractors had obtained required criminal record clearances for their employees working with minors.

Hub Cities' attached response indicates that they are working with the Department of Justice to obtain the required criminal record clearances.

- Did not maintain an approval letter from CSS and/or invoices to support \$73,260 in FY 2008-09 subcontractor expenditures.

After our review, Hub Cities provided additional documentation. However, the additional documentation did not include a letter from CSS approving Hub Cities' use of a subcontractor as required by Part II, Section 65.1 of the FY 2008-09 County contract.

- Did not maintain adequate documentation for the allocation basis for \$24,119 in shared expenses from FY 2008-09. \$3,030 of the expenses were for unallowable legal fees incurred to file an appeal against CSS.

Hub Cities' attached response indicates that supporting documentation was provided at the exit meeting. However, Hub Cities did not allocate the shared expenses among all benefitting programs as required. Hub Cities' management indicated that they would reallocate the shared expenses. However, Hub Cities had not submitted documentation to support the reallocations.

- Billed CSS \$12,780 in FY 2008-09 for expenditures for non-WIA participants.

Hub Cities' attached response indicates that they will repay CSS \$12,780.

- Billed CSS \$10,832 for FY 2008-09 expenditures related to the New Mexico college preparation program on their FY 2008-09 final closing invoice. The California Employment Development Department determined that University of New Mexico college preparation program costs were disallowed expenditures.

Hub Cities' attached response indicates that they had already repaid CSS the \$10,832 in questioned costs. However, Hub Cities has not provided any documentation of the repayment.

- Billed CSS \$2,750 in FY 2008-09 for FY 2009-10 expenditures on their FY 2008-09 final closing invoice.

Hub Cities' attached response indicates that they will repay CSS \$2,750.

Details of our review, along with recommendations for corrective action, are attached.

Review of Report

We discussed our report with Hub Cities and CSS. In their attached response, Hub Cities' management concurred with most of our findings and recommendations. Hub Cities indicated that they will repay \$27,272 in questioned costs, and CSS management indicated that they will resolve the remaining \$162,492 (\$307,634 - \$117,870 - \$27,272) in questioned costs in accordance with their Resolution Procedures Directive. CSS will request that Hub Cities provide a Corrective Action Plan that addresses the outstanding findings and questioned costs. CSS staff will then review the Corrective Action Plan, and will provide technical assistance on an as-needed basis to address programmatic issues.

We thank Hub Cities' management and staff for their cooperation and assistance during our review. Please call me if you have any questions, or your staff may contact Don Chadwick at (213) 253-0301.

WLW:JS:DC:EB

Attachment

c: William T Fujioka, Chief Executive Officer
Cynthia D. Banks, Director, Community and Senior Services
Alberto Uribe, Executive Director, Hub Cities Consortium
David Silva, Chairperson, Hub Cities Consortium
Public Information Office
Audit Committee

**HUB CITIES CONSORTIUM
WORKFORCE INVESTMENT ACT PROGRAMS
CONTRACT COMPLIANCE REVIEW
FISCAL YEAR 2009-10**

ELIGIBILITY

Objective

Determine whether Hub Cities Consortium (Hub Cities or Agency) provided services to eligible individuals for the Workforce Investment Act (WIA) Formula, American Recovery and Reinvestment Act (ARRA), and Dislocated Worker Stimulus Programs.

Verification

We reviewed the case files for 80 (7%) of the 1,082 participants (20 Formula Youths, 20 Formula Adults, ten ARRA Adults, ten Formula Dislocated Workers, ten ARRA Dislocated Workers, and ten Stimulus Dislocated Workers) who received services from July 2009 through May 2010 for documentation to confirm their eligibility for WIA services.

Results

Hub Cities did not maintain adequate documentation to support the eligibility for five (6%) of the 80 participants reviewed. Specifically, Hub Cities did not have documentation that the participants met the Selective Service requirements of WIA Directive WIAD10-01, or proof that the participant had been terminated or had been laid off work as required by County Directive WIAD10-01. At the time of our review, the direct questioned costs for the five ineligible participants totaled \$6,484. The Agency may also have billed CSS for other costs for direct and indirect services provided to the ineligible individuals, such as staff time. A similar finding was also noted in our prior year's review of the Agency's WIA ARRA Summer Youth Employment Program.

After our review, Hub Cities provided additional documentation to support the eligibility of three of the five participants. The costs related to these three individuals totaled \$5,574, resulting in \$910 in remaining questioned costs.

Recommendations

Hub Cities management:

1. **Repay CSS \$910 (\$6,484 - \$5,574), and any other costs associated with providing services to the ineligible participants, or provide adequate documentation to support the participants' eligibility.**

2. Ensure that staff obtain adequate documentation of the participants' eligibility for program services prior to enrollment.

BILLED SERVICES/CLIENT VERIFICATION

Objective

Determine whether the Agency provided the services in accordance with the County contract and WIA guidelines. In addition, determine whether the participants received the billed services.

Verification

We reviewed the case files of 80 (7%) of the participants who received services from July 2009 through May 2010.

Results

Youth Program

Hub Cities provided the services in accordance with the County contract and WIA guidelines. However, for two (10%) of the 20 participants reviewed, Hub Cities did not report the participants' program activities, such as exit date and leadership training, on the Job Training Automation (JTA) System as required by WIA Directive LACOD-WIAD08-38. The State of California Employment Development Department (EDD) and the Department of Labor use the JTA System to track WIA participant activities. We noted a similar finding during our two prior years' monitoring reviews.

After our review, Hub Cities updated the JTA System to accurately reflect the participants' program activities.

Adult and Dislocated Worker Programs

Hub Cities provided the Adult and Dislocated Worker services in accordance with the County contract and WIA guidelines. However, Hub Cities did not maintain a signed WIA Complaint and Resolution Policies and Procedures Participant Acceptance Form as required by WIA Directive LACOD-WIAD08-36 for 36 (60%) of the 60 participants sampled.

Recommendations

Hub Cities management:

3. Ensure that staff update the Job Training Automation System to accurately reflect the participants' program activities within the established timeframes.

4. Ensure that all required forms are signed and maintained in the participant case files.

CASH/REVENUE

Objective

Determine whether the Agency deposited cash receipts timely, and recorded revenue in the Agency's records properly.

Verification

We interviewed Agency personnel, and reviewed financial records. We also reviewed the Agency's bank activity for February, March, and April 2010.

Results

Hub Cities deposited its cash receipts timely, and recorded revenue properly.

Recommendation

None.

COST ALLOCATION PLAN

Objective

Determine whether Hub Cities' Cost Allocation Plan was prepared in compliance with the County contract, and used to allocate shared expenditures appropriately.

Verification

We reviewed the Cost Allocation Plan, and a sample of shared expenditures for July 2009, February 2010, and March 2010, to ensure that the expenditures were allocated among the Agency's programs appropriately.

Results

Hub Cities' Cost Allocation Plan was prepared in compliance with the County contract. However, Hub Cities did not maintain adequate documentation of the allocation bases, and did not allocate shared expenditures to all programs that benefited from the expenditures as required by the Auditor-Controller Contract Accounting and Administration Handbook. Questioned costs totaled \$19,245. We noted similar findings in our two prior monitoring reviews.

After our review, Hub Cities provided additional documentation to support the \$19,245 in questioned costs.

Recommendations

Hub Cities management:

- 5. Maintain adequate documentation to support shared program expenditures and allocation percentages.**
- 6. Ensure that shared program expenditures are appropriately allocated among all benefiting programs.**

EXPENDITURES/PROCUREMENT

Objective

Determine whether expenditures charged to the Programs are allowable under the County contract, documented properly, and billed accurately.

Verification

We interviewed Agency personnel, and reviewed financial records and documents for 56 non-payroll expenditure transactions billed by the Agency for July 2009, February 2010, and March 2010, totaling \$327,814.

Results

Hub Cities billed CSS for \$157,129 in unsupported expenditures. Specifically, Hub Cities did not have adequate documentation, such as invoices, agreements, cancelled checks, attendance records, and receipts, to support \$157,129 in Individual Training Account (ITA), supportive services, maintenance, and printing/postage expenditures. We noted similar findings in our two prior monitoring reviews.

After our review, Hub Cities provided additional documentation to support \$92,016 of the \$157,129 in questioned costs. Hub Cities' management indicated that they credited CSS for the remaining \$65,113 in questioned costs. However, Hub Cities did not provide adequate documentation, such as a copy of their accounting records, that they had credited the questioned costs to CSS.

Recommendation

- 7. Hub Cities management repay CSS \$65,113 (\$157,129 - \$92,016), or provide documentation to support the expenditures.**

ADMINISTRATIVE CONTROLS/CONTRACT COMPLIANCE**Objective**

Determine whether the Agency had adequate controls over its business, payroll, and personnel transactions. In addition, determine whether the Agency is in compliance with other Program and administrative requirements.

Verification

We interviewed Agency personnel, reviewed their policies and procedures manuals, conducted an on-site visit, and tested payroll and personnel transactions.

Results

Hub Cities maintained adequate controls over its business operations. However, Hub Cities did not always comply with WIA and County requirements. Specifically, Hub Cities did not:

- Develop and/or implement WIA ARRA policies and procedures as required by WIA Directives WIA/ARRA A D09-03, ADW D09-04, ADW D09-05, ADW D09-07, and ADW D09-08.

After our review, Hub Cities developed the required policies and procedures.

- Adequately monitor their subcontractors. Hub Cities did not verify whether the subcontractors obtained the required criminal record clearances for their employees working with minors. We noted a similar finding in our prior WIA ARRA Summer Youth Employment Program monitoring review.
- Report the subcontractors' expenditure accruals on their quarterly invoices as required by WIA Directive LACOD-WIAD08-19. According to Agency management, the subcontractors bill their entire year's expenditures in their June invoices, instead of billing on a monthly basis as required by the agreement. We noted a similar finding in our prior year's WIA ARRA Summer Youth Employment Program monitoring review.
- Always submit their monthly invoices within ten days after the end of the month as required by County contract Part II, Section 8.4. We noted a similar finding in our prior year's WIA ARRA Summer Youth Employment Program monitoring review.

Recommendations

Hub Cities management:

8. Ensure that all the required WIA ARRA policies and procedures are implemented.
9. Monitor subcontractors to ensure that criminal record clearances are obtained for employees working with minors.
10. Report quarterly expenditure accruals to CSS, or enforce their agreement and require the subcontractors to submit monthly invoices.
11. Submit monthly invoices within ten days of the end of the month.

FIXED ASSETS AND EQUIPMENT

Objective

Determine whether Hub Cities' fixed assets and equipment purchased with WIA funds are used for the WIA Programs, and are safeguarded.

Verification

We interviewed Agency personnel, and reviewed the Agency's fixed assets and equipment inventory listing. In addition, we performed an inventory, and reviewed the usage of ten items purchased with WIA funds, totaling \$33,014.

Results

Hub Cities used the equipment purchased with WIA funds for the WIA Programs, and the assets were safeguarded.

Recommendation

None.

PAYROLL AND PERSONNEL

Objective

Determine whether payroll expenditures were appropriately charged to the WIA Programs. In addition, determine whether the Agency obtained criminal record clearances, verified employability, and maintained current driver's licenses and proof of automobile insurance for employees assigned to the WIA Programs.

Verification

We traced the payroll expenditures invoiced for ten employees and ten participants, totaling \$35,654, for March 2010 to the Agency's payroll records and time reports. We also reviewed the personnel files for five employees assigned to the WIA Programs.

Results

Hub Cities' Fiscal Year (FY) 2009-10 participant fringe benefit expenditures billed to the WIA Formula Youth Program did not reconcile to the Agency's FY 2009-10 general ledger. Questioned costs totaled \$1,035.

Hub Cities also did not obtain a criminal record clearance as required by the County contract for one employee who worked directly with minors. We noted a similar issue in our prior two years' monitoring reviews.

After our review, Hub Cities provided additional documentation to support \$1,035 in questioned costs.

Recommendation

- 12. Hub Cities management obtain criminal record clearances, including fingerprinting, for employees working directly with minors.**

CLOSE-OUT REVIEW**Objective**

Determine whether the Agency's FY 2008-09 final close-out invoices for the WIA Formula Adult, Dislocated Worker, Youth, and Rapid Response Programs reconciled to the Agency's accounting records. Hub Cities did not have WIA ARRA or Stimulus contracts for FY 2008-09.

Verification

We traced Hub Cities' final close-out invoices for FY 2008-09 to the Agency's accounting records. We also reviewed a sample of expenditures incurred in July 2008, May 2009, and June 2009.

Results

Hub Cities' final close-out invoices for FY 2008-09 reconciled to the Agency's accounting records. However, Hub Cities billed \$123,741 in questioned costs. Specifically, Hub Cities:

- Did not have an approval letter from CSS and/or invoices to support \$73,260 in subcontractor billings.

After our review, Hub Cities provided subcontractor invoices. However, Hub Cities did not provide a letter from CSS approving the Agency's use of a subcontractor as required by County contract Part II, Section 65.1.

- Did not have adequate documentation to support the allocation basis for \$24,119 in shared expenditures, including \$3,030 in unallowable legal fees.
- Billed CSS \$12,780 in ITA expenditures for non-WIA participants.
- Billed CSS \$10,832 for expenditures for the New Mexico college preparation program. The EDD determined that University of New Mexico college preparation program costs are disallowed expenditures.
- Billed CSS \$2,750 in FY 2008-09 for FY 2009-10 ITA expenditures.

We noted similar findings in our prior two years' monitoring reviews.

Recommendations

Hub Cities management:

- 13. Repay CSS \$123,741, or provide documentation to support the expenditures.**
- 14. Obtain prior written authorization from CSS to use subcontractors.**
- 15. Ensure that expenditures charged to the WIA Programs are allowable.**
- 16. Ensure expenditures charged to the WIA Programs are for WIA-related expenditures, and costs were incurred by the Programs during the contract period.**



July 29, 2011

Alberto Uribe
Executive Director

Board of Directors:

David M. Silva
Chairman

Maria Davila
Vice-Chair

Felipe Aguirre

Mario Gomez

Maria Santillan

Wendy L. Watanabe, Auditor-Controller
County of Los Angeles Department of Auditor-Controller
500 West Temple Street, Room 525
Los Angeles, California 90012-3873

Re: Hub Cities Consortium – A Community and Senior Services Workforce Investment Act Program Contract Provider Contract Compliance Review - Fiscal Year 2009-10 Final formal response Letter dated July xx, 2011.

Dear Ms. Watanabe,

Serving residents of:

Cudahy
Huntington Park
Lynwood
Maywood
South Gate

This letter is in response to your July xx, 2011 letter regarding the Fiscal Year 2009-10 Contract Compliance Review Final formal response, along with this letter is a binder with additional documentation supporting the final formal responses of the Hub Cities Consortium to your letter dated July xx, 2011.

Overview

Our response is organized in such a way as to provide a response to each of the recommendations from the 2009-10 details of your review.

ELIGIBILITY

Recommendation #1

We agree with this recommendation and will repay CSS \$910. At the time of this response no other eligibility documentation has been obtained for the remaining two ineligible participants. Therefore these participants will remain ineligible for the program.

Recommendation #2

We agree with this recommendation. HCC has updated the file review process. HCC has implemented a stringent file review process in order to ensure that every participant is eligible for program services prior to enrollment. This review is administered by the program manager and is completed for every customer file prior to enrollment in the JTA system.



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BILLED SERVICES/CLIENT VERIFICATION

Recommendation #3

We agree with this recommendation. HCC has established a monthly MIS deadline, in order to ensure that staff updates the Job Training Automation System in a timely basis. All staff responsible for case management is aware of these deadlines.

Recommendation #4

We agree with this recommendation. HCC management has restructured and implemented a simplified file review process. Every file is reviewed for eligibility and accuracy. It is at this time that the reviewer ensures that all forms are signed and kept in the participant file. This review is conducted prior to enrollment in the program which allows management to find and address any problems that may arise.

COST ALLOCATION PLAN

Recommendation #5

HCC maintains adequate documentation to support the program expenditures and allocation percentages. HCC has provided additional documentation to support the questioned costs for this recommendation. Recommendation will be removed from final report.

Recommendation #6

HCC ensures that program expenditures are appropriately allocated among all benefiting programs. HCC has provided additional documentation to support the questioned costs for this recommendation. Recommendation will be removed from final report.

EXPENDITURES/PROCUREMENT

Recommendation #7

We do not agree with this recommendation. We are providing documentation to support the expenditures. HCC maintains adequate documentation to support shared expenditures and adequately allocates shared program expenditures. Our response to this recommendation is organized in the order of the "FY 09-10 Non-Payroll expenditure Test work Schedule".

PAYROLL AND PERSONNEL

Recommendation #12

We agree with this recommendation. HCC is in the process of working with the Department of Justice office to obtain authorization to conduct criminal record clearances.

CLOSE-OUT REVIEW

Recommendation #13

The recommendation to repay or provide documentation to support expenditures is as followed in the order of the bullet points under Close-out review:

- HCC will ensure that any future use of subcontractors will obtain prior written authorization from CSS. This was implemented in PY 2009-2010 with the termination of the RWG Agreement between Hub Cities Consortium and Los Angeles County. However, the subcontractor cost in question is for PY 2008-09. In that fiscal year, HCC was governed under the RWG agreement. As per the agreement HCC was not required to request prior permission from CSS to subcontract services. HCC procured potential subcontractors through an RFP process and granted LACO among others to deliver WIA-Youth services.
- HCC did maintain adequate documentation to support the basis of the allocation percentages to support \$24,119 in shared expenditures and the cost was allocated in accordance to the 2008-09 Cost Allocation Plan methodology. The supporting documentation was provided at the exit conference on Tuesday, June 21, 2011.
- We agree with this recommendation. HCC agrees to repay \$12,780 in ITA expenditures for non WIA participants.
- This activity has been questioned and is currently pending by a state finding; LA Works and HCC are currently working with CSS on resolving the issue. HCC participation in the New Mexico CPP has stopped, the \$10,832 questioned in the report were also part of the 2008-09 New Mexico dis-allowed cost and paid back to CSS.
- We agree with this recommendation. HCC agrees to repay \$2,750 in FY 2008-09 for 2009-10 ITA expenditures. Due to the lateness of the report, HCC was not able to capture an allowable ITA expenditure in FY 2009-10.

Recommendation #14

HCC will ensure that any future use of subcontractors will obtain prior written authorization from CSS. This was implemented in PY 2009-2010 with the termination of the RWG Agreement between Hub Cities Consortium and Los Angeles County. However, the subcontractor cost in question is for PY 2008-09. In that fiscal year, HCC was governed under the RWG agreement. As per the agreement HCC was not required to request prior permission from CSS to subcontract services. HCC procured potential subcontractors through an RFP process and granted LACO among others to deliver WIA-Youth services.

Recommendation #15


HCC ensures that all expenditures charged to the WIA programs are allowable expenditures.

Recommendation #16

HCC ensures that all expenditures charged to the WIA programs are for WIA-related expenditures and costs are incurred by the program during the contract period.

We thank the County of Los Angeles Department of Auditor-Controller for their cooperation and support during this review. We appreciate the opportunity to provide Community and Senior Services with additional documentation to support the WIA program expenditures. We hope that we can resolve these findings in a quick and productive manner.

Sincerely,



Jorge Galvez
Financial Manager